

# **Qwest Communications International Inc.**

## **Investor Quarterly Update – 3Q09**

*October 28, 2009*

***Kurt Fawkes***

**Senior Vice President – Investor Relations**

## Forward-Looking Statement Note

This release may contain projections and other forward-looking statements that involve risks and uncertainties. These statements may differ materially from actual future events or results. Readers are referred to the documents filed by us with the Securities and Exchange Commission, specifically the most recent reports which identify important risk factors that could cause actual results to differ from those contained in the forward-looking statements, including but not limited to: access line losses due to increased competition, including from technology substitution of our access lines with wireless and cable alternatives, among others; our substantial indebtedness, and our inability to complete any efforts to further de-lever our balance sheet; adverse results of increased review and scrutiny by media and others (including any internal analyses) of financial reporting issues and practices or otherwise; rapid and significant changes in technology and markets; any adverse developments in commercial disputes or legal proceedings; potential fluctuations in quarterly results; volatility of our stock price; intense competition in the markets in which we compete including the effects of consolidation in our industry; changes in demand for our products and services; acceleration of the deployment of advanced new services, such as broadband data, wireless and video services, which could require substantial expenditure of financial and other resources in excess of contemplated levels; higher than anticipated employee levels, capital expenditures and operating expenses; adverse changes in the regulatory or legislative environment affecting our business; changes in the outcome of future events from the assumed outcome included in our significant accounting policies; our ability to utilize net operating losses in projected amounts; and continued unfavorable general economic conditions, including the current financial crisis.

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# EPS Summary

	3Q		YTD	
	2008	2009	2008	2009
<b>Reported EPS</b>	<b>\$0.08</b>	<b>\$0.08</b>	<b>\$0.27</b>	<b>\$0.32</b>
<i>2008 Adjustments:</i>				
Severance / Restructure	0.01		0.03	
Litigation			0.01	
Property Tax Settlement			-0.01	
<i>2009 Adjustments:</i>				
Severance / Restructure				0.02
Litigation		0.01		0.01
Income Tax Settlements				-0.05
<b>Reported with adjustments</b>	<b>0.09</b>	<b>0.09</b>	<b>0.30</b>	<b>0.30</b>
<b>Incremental non-cash Pension / OPEB</b>		<b>0.02</b>		<b>0.06</b>

***Ed Mueller***

**Chairman and Chief Executive Officer**

- Solid profitability and cash flow
- On track to accomplish full-year objectives
- Strengthened balance sheet
- Achieving milestones on strategic initiatives
- Pursuing growth through disciplined framework

***Teresa Taylor***

**Executive Vice President – Chief Operating Officer**

# Business Markets Continues to Take Share

<i>In millions, except margins</i>	3Q09	Seq. Δ	YOY Δ
<b>Total segment revenue</b>	<b>\$ 1,032</b>	<b>+1%</b>	<b>-1%</b>
<i>Strategic services</i>	402	+2%	+11%
<i>Legacy services</i>	477	-3%	-9%
<i>Data integration</i>	153	+16%	-3%
<b>Total business markets expenses</b>	<b>\$ 623</b>	<b>+2%</b>	<b>-8%</b>
<b>Business markets segment income</b>	<b>\$ 409</b>	<b>-</b>	<b>+11%</b>
<b>Business markets margin percentage</b>	<b>39.6%</b>	<b>-40 bps</b>	<b>+430 bps</b>
<i>Strategic services as a % of segment revenue</i>	39.0%	+30 bps	+440 bps

- Revenue stable, strong profit improvement
- Strategic revenue growth on new demand, customer migrations
- Continued investment in IP infrastructure to meet customer demand

# Mass Markets Maintaining Segment Income

<i>In millions, except margins</i>	3Q09	Seq. Δ	YOY Δ
<b>Total segment revenue</b>	<b>\$ 1,226</b>	<b>-3%</b>	<b>-14%</b>
<i>Strategic services</i>	346	-1%	+3%
<i>Legacy services</i>	860	-3%	-12%
<i>Wireless MVNO</i>	20	-39%	-83%
<b>Total segment revenue without wireless MVNO</b>	<b>1,206</b>	<b>-2%</b>	<b>-8%</b>
<b>Total mass markets expenses</b>	<b>\$ 553</b>	<b>-4%</b>	<b>-26%</b>
<b>Mass markets segment income</b>	<b>\$ 673</b>	<b>-3%</b>	<b>-</b>
<b>Mass markets margin percentage</b>	<b>54.9%</b>	<b>+40 bps</b>	<b>+760 bps</b>
<i>Strategic services as a % of segment revenue</i>	28.2%	+80 bps	+470 bps

- Steady demand for strategic services
- Wireless migration and access line trends continue to impact top line
- Executing on cost opportunities
- Wireless MVNO revenue will cease in the fourth quarter

# Higher ARPU Tempers Access Line Trend

<i>Net additions in thousands, excluding ARPU</i>	<b>3Q08</b>	<b>4Q08</b>	<b>1Q09</b>	<b>2Q09</b>	<b>3Q09</b>
Access lines	-244	-226	-259	-249	-243
HSI subscribers	61	54	42	34	28
Video subscribers	39	37	34	21	9
Wireless subscribers	-39	-55	30	16	23
<b>Total Mass Markets connections</b>	<b>-183</b>	<b>-190</b>	<b>-153</b>	<b>-178</b>	<b>-183</b>
<b>Consumer ARPU</b>	<b>\$ 56.24</b>	<b>\$ 56.78</b>	<b>\$ 57.84</b>	<b>\$ 58.15</b>	<b>\$ 58.81</b>

- Access lines continue to be impacted by wireless substitution
- Strong gains for fiber to the node
- Wireless subscriber growth aided by bundle opt-ins

# Wholesale Segment Income Steady

*In millions, except margins*

	3Q09	Seq. Δ	YOY Δ
<b>Wholesale segment revenue</b>	<b>\$ 700</b>	<b>-2%</b>	<b>-14%</b>
<i>Strategic services</i>	303	-	-2%
<i>Legacy services</i>	397	-3%	-22%
<b>Total wholesale expenses</b>	<b>\$ 241</b>	<b>-5%</b>	<b>-32%</b>
<b>Wholesale segment income</b>	<b>\$ 459</b>	<b>-</b>	<b>-</b>
<b>Wholesale markets margin percentage</b>	<b>65.6%</b>	<b>+140 bps</b>	<b>+920 bps</b>
<i>Strategic services as a % of segment revenue</i>	43.3%	+70 bps	+540 bps

- Improved segment income margin percentage reflects effectiveness of redefining Wholesale objectives
- Peer grooming, access line trends continue to challenge top line
- Fiber to the cell site positioned for growth

***Joe Euteneuer***

**Executive Vice President – Chief Financial Officer**

# Consolidated Results Better Than Expected

<i>In millions, except margin</i>	3Q09	Seq. Δ	YOY Δ
Revenue			
Strategic revenue	\$ 1,051	+1%	+5%
Legacy revenue	1,734	-3%	-14%
Expense			
Cost of sales	\$ 932	-	-24%
Selling	460	-7%	-20%
General, administrative and other	596	+1%	+15%
Adjusted EBITDA <sup>(1)</sup>	\$ 1,093	-	+1%
<i>Adjusted EBITDA margin percentage</i> <sup>(1)</sup>	35.8%	+50 bps	+370 bps

<sup>(1)</sup> Reconciliation of Non-GAAP measures can be found in the appendix to this presentation.

- Strategic services continue to scale
- Strong cost management offsets revenue pressure and pension/OPEB dilution
- Margin improvement in all segments

# Strengthened Balance Sheet

<i>In millions, except leverage ratio</i>	3Q08	2Q09	3Q09
Cash and cash equivalents	\$ 586	\$ 1,796	\$ 2,074
Total debt	13,939	14,123	14,135
Net debt <sup>(1)</sup>	13,353	12,327	12,061
Dividends paid	138	137	138
Leverage ratio <sup>(1)</sup>	3.0	2.7	2.7

<sup>(1)</sup> Reconciliation of Non-GAAP measures can be found in the appendix to this presentation.

- Net debt improves on strong free cash flow
- Manageable maturity profile
- Continued access to credit markets with favorable rates
- Eight consecutive quarterly dividends

# Robust Free Cash Flow

<i>In millions, except DPO and DSO</i>	3Q08	3Q09
Days sales outstanding	38.7	39.6
Days payable outstanding	36.1	34.1
Capital expenditures	\$ 466	\$ 341
Adjusted Free Cash Flow <sup>(1)</sup>	330	428

<sup>(1)</sup> Reconciliation of Non-GAAP measures can be found in the appendix to this presentation.

- Excellent collection performance throughout 2009
- Capital results driven by slower volume growth and vendor efficiencies
- Strong adjusted EBITDA, lower capital investment and working capital drive higher free cash flow
- YTD adjusted free cash flow of \$1.4 billion

## Full year 2009 expectations

- Segment revenue trends to continue in fourth quarter
- Adjusted EBITDA at the upper end of the \$4.25 to \$4.4 billion range
- Total capital investment of \$1.6 billion or lower
- Adjusted free cash flow of \$1.6 to \$1.7 billion

- Ed Mueller, *Chairman and CEO*
- Teresa Taylor, *Executive Vice President and COO*
- Joe Euteneuer, *Executive Vice President and CFO*
- Kurt Fawkes, *Senior Vice President - Investor Relations*

# Non-GAAP Reconciliations

## RECONCILIATION OF NON-GAAP FINANCIAL MEASURES—EBITDA (1) (2)

(UNAUDITED)

(Dollars in millions)

	<u>Three Months Ended</u>		
	<u>9/30/08</u>	<u>6/30/09</u>	<u>9/30/09</u>
EBITDA—as adjusted:.....	\$ 1,083	\$ 1,092	\$ 1,093
Less: Legal reserve.....	—	—	(16)
Less: Property tax settlement.....	—	—	—
Less: Realignment, severance and related costs.....	(30)	(23)	(11)
EBITDA:.....	\$ 1,053	\$ 1,069	\$ 1,066
Depreciation and amortization.....	(599)	(578)	(581)
Total other (expense) income—net.....	(236)	(274)	(274)
Income tax (expense) benefit.....	(73)	(5)	(75)
Net income.....	<u>\$ 145</u>	<u>\$ 212</u>	<u>\$ 136</u>

### EBITDA margin percentage—as adjusted:

EBITDA—as adjusted :.....	\$ 1,083	\$ 1,092	\$ 1,093
Divided by total operating revenue.....	\$ 3,379	\$ 3,090	\$ 3,054
<i>EBITDA margin percentage—as adjusted.....</i>	<i>32.1 %</i>	<i>35.3 %</i>	<i>35.8 %</i>

### EBITDA margin percentage:

EBITDA.....	\$ 1,053	\$ 1,069	\$ 1,066
Divided by total operating revenue.....	\$ 3,379	\$ 3,090	\$ 3,054
<i>EBITDA margin percentage.....</i>	<i>31.2 %</i>	<i>34.6 %</i>	<i>34.9 %</i>

(1) EBITDA, EBITDA margin percentage, EBITDA—as adjusted and EBITDA margin percentage—as adjusted are non-GAAP financial measures. Other companies may calculate these measures (or similarly titled measures) differently. We believe these measures provide useful information to investors in evaluating our capital-intensive business because they reflect our operating performance before the impacts of non-cash items and are indicators of our ability to service debt, pay taxes and fund discretionary spending such as capital expenditures. Management also uses EBITDA for a number of purposes, including setting targets for compensation and assessing the performance of our operations.

(2) We have reclassified certain prior year amounts to conform to the current quarter presentation.

# Non-GAAP Reconciliations

**RECONCILIATION OF NON-GAAP FINANCIAL MEASURES—NET DEBT (1) (2)**  
**(UNAUDITED)**  
**(Dollars in millions)**

	<u>9/30/08</u>	<u>6/30/09</u>	<u>9/30/09</u>
Net debt:			
Current portion of long-term borrowings.....	\$ 1,240	\$ 1,085	\$ 925
Long-term borrowings—net.....	<u>12,699</u>	<u>13,038</u>	<u>13,210</u>
Total borrowings—net.....	13,939	14,123	14,135
Less: cash and cash equivalents .....	<u>(586)</u>	<u>(1,796)</u>	<u>(2,074)</u>
Net debt.....	<u>\$ 13,353</u>	<u>\$ 12,327</u>	<u>\$ 12,061</u>
Ratio of net debt to annualized EBITDA—as adjusted: (3) (4)			
Total net debt.....	\$ 13,353	\$ 12,327	\$ 12,061
Divided by annualized EBITDA—as adjusted .....	\$ 4,505	\$ 4,499	\$ 4,509
Ratio of net debt to annualized EBITDA—as adjusted.....	3.0	2.7	2.7

(1) Net debt is a non-GAAP financial measure that we calculate as our total borrowings—net (current plus long-term) less our cash and cash equivalents. We believe net debt is helpful in analyzing our leverage, and management uses this measure in making decisions regarding potential financings. Net debt is not a measure determined in accordance with GAAP and should not be considered as a substitute for “current portion of long term borrowings” or “long-term borrowings—net” or any other measure determined in accordance with GAAP.

(2) Effective January 1, 2009, we adopted FSP APB 14-1 (ASC 470). The adoption of this FSP resulted in us retrospectively adjusting previously reported net income and long-term borrowings—net for all periods presented.

(3) EBITDA—as adjusted is a non-GAAP financial measure that reflects our operating performance before the impacts of certain non-cash items and after removing the effects of items that we believe are not representative of our core ongoing telecommunications operations, such as severance charges, restructuring charges and charges for securities-related litigation. We provide this information to supplement our GAAP financial measures because we believe that investors commonly use this information to analyze the results of our core operations, to identify financial trends in these results and to compare our operating performance to that of our competitors. Management also uses these measures for a number of purposes, including setting targets for compensation and assessing the performance of our operations.

(4) The ratio of net debt to annualized EBITDA—as adjusted is a non-GAAP financial measure that we calculate as net debt divided by a rolling four quarters of EBITDA—as adjusted. Other companies may calculate this measure differently. We believe this measure provides useful information to our investors about our debt level relative to our performance and about our ability to meet our financial obligations.

# Non-GAAP Reconciliations

**RECONCILIATION OF NON-GAAP FINANCIAL MEASURES—FREE CASH FLOW FROM OPERATIONS (1)**  
**(UNAUDITED)**  
**(Dollars in millions)**

	<u>Three Months Ended</u>			<u>Year to Date</u>
	<u>9/30/08</u>	<u>6/30/09</u>	<u>9/30/09</u>	<u>2009</u>
Free cash flow from operations:				
Cash provided by operating activities.....	\$ 726	\$ 1,005	\$ 769	\$ 2,431
Less: Expenditures for property, plant and equipment and capitalized software...	<u>(466)</u>	<u>(348)</u>	<u>(341)</u>	<u>(1,023)</u>
Free cash flow from operations.....	260	657	428	1,408
Add: certain one-time settlements.....	<u>70</u>	<u>—</u>	<u>—</u>	<u>16</u>
Adjusted free cash flow from operations.....	<u>\$ 330</u>	<u>\$ 657</u>	<u>\$ 428</u>	<u>\$ 1,424</u>

(1) Free cash flow and adjusted free cash flow from operations are non-GAAP financial measures that indicate cash generated by our business after operating expenses, capital expenditures, interest expense and income tax expense. We believe these measures provide useful information to our investors for purposes of evaluating our ability to satisfy our debt and other mandatory payment obligations and because they reflect cash flows available for financing activities, voluntary debt repayment and to strengthen our balance sheet. This is of particular relevance for our business given our significant debt balance. We also use free cash flow and adjusted free cash flow from operations internally for a variety of purposes, including setting targets for compensation and budgeting our cash needs. These measures are not determined in accordance with GAAP and should not be considered as a substitute for “income before income taxes” or “cash provided by operating activities” or any other measure determined in accordance with GAAP. Due to the forward-looking nature of expected free cash flow amounts for 2009, information to reconcile this non-GAAP financial measure is not available at this time.